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SUBJECT: KAZAKHSTAN - MASIMOV AND MYNBAYEV STRESS IMPORTANCE OF
DIVERSE ENERGY ROUTES AT KAZENERGY FORUM

¶1. (U) The 3rd annual KazEnergy Eurasian Energy Forum was held in Astana during September 4-5. In opening remarks, Prime Minister Masimov promised that Kazakhstan "will always be a reliable and dependable international partner," stressing that Kazakhstan's "principled stand" is "to ensure stability of supplies and contracts [and] provide a predictable and consistent basis for international partners operating in our country." He stressed that Kazakhstan remains committed to diversification of export routes for energy, while adding that the selection of any specific project will be based on an assessment of its economic viability. Masimov said that Kazakhstan would participate in all major Eurasian transport projects, including the Caspian Pipeline Consortium (CPC) pipeline, Baku-Tbilisi-Ceyhan (BTC), the Atasu-Alashkankou (Kazakhstan-China) oil pipeline, Burgas-Alexandroupolis, and the Prikaspiyskiy gas pipeline. Masimov explained that Kazakhstan's new tax code will streamline methods for calculating rent taxes and excess profit taxes and said that royalty payments will be replaced by a tax on extraction. He added that Kazakhstan will "speed up the modernization of its domestic oil processing and energy generating infrastructure."

¶2. (SBU) Minister of Energy and Mineral Resources Sauat Mynbayev followed Masimov's speech with a detailed overview of the energy sector. On transportation, he noted that expansion of the Atyrau-Samara oil pipeline to Russia is underway; construction of the Beyneu-Akbulak gas pipeline to China has started; and Transneft, KazMunaiGaz, and other CPC partners have reached agreement in principle to expand the CPC pipeline by 2012, with only a few "procedural questions" remaining to be resolved. (Note: In a September 8 meeting with the Ambassador, Mynbaev was more frank. He complained that BP -- which owns 12.5% of the CPC through a joint venture with Lukoil called LUKARCO -- is holding up CPC expansion. "Little BP could ruin everything," he maintained. Mynbaev argued that as the largest stakeholder in Tengizchevroil, Chevron should buy LUKARCO's stake in CPC. He then suggested that "if the price is right," KazMunaiGaz would buy LUKARCO's share to break the impasse. End Note).

¶3. (U) In his speech, Mynbayev particularly stressed the importance of the gas pipeline to China, noting that Kazakhstan currently exports gas to Russia only. He argued that Kazakhstan must expand its oil refining capacity through the modernization of its three existing refineries in Shymkent, Aktau, and Pavlodar, as well as the construction of new refineries. Mynbaev also briefly discussed the state of Kazakhstan's electricity sector. He acknowledged that the price of electricity in Kazakhstan is very low (3 to 4 cents per kilowatt hour) compared to global averages and tariff setting is not transparent, which Mynbaev said has discouraged much-needed private investment. "We have subsidized the price of electricity for too long," he said. "The most important thing," according to Mynbaev, "is long-term tariff stability." On nuclear power, Mynbaev stated that Kazakhstan aspires to become the world's second biggest uranium producer and has set a goal of producing 400,000 tons per year. He also noted that KazAtomProm plans to construct a nuclear power plant in Aktau by 2012.

¶4. (SBU) Presidential Energy Advisor Nurlan Balgimbayev proudly cited Kazakhstan's success in attracting foreign direct investment

in its oil and gas sector, noting that exports continue to climb in both volume and value. Balgimbayev said that the government welcomed new private investment, including in oil refineries, oil and gas transportation infrastructure, and the petrochemical industry. He pointedly maintained, however, that "the time has come to balance the interests of the oil companies with those of the Government of Kazakhstan," especially with regard to the new tax law. The government must increase both production and revenue, he stressed. (Note: These comments were singled out by Steve Rose, ExxonMobil General Manager for Kazakhstan, as among the most significant statements of the day. End Note.)

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